6/23/81

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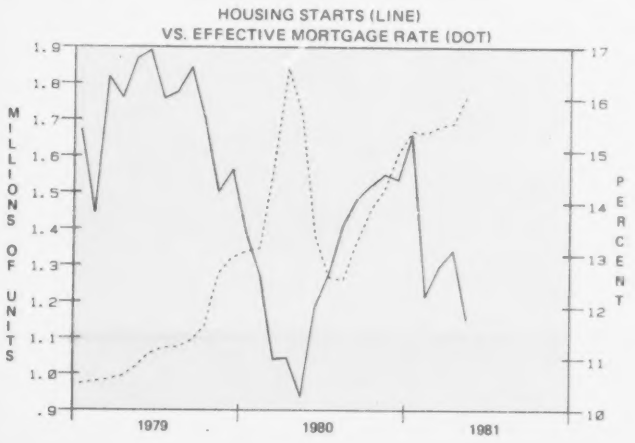
The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, JUNE 22, 1981 VOLUME XVIII, NUMBER 25

Renewed Weakness In Housing . . .

With the release last week of a wide variety of closely watched economic indicators, it has become increasingly apparent that the pace of business activity has slowed substantially—if not actually declined. The growth momentum that developed at the end of last year evidently came to a halt at the end of the first quarter, and the economy has been weakening ever since.

One of the major reasons for the economy's weakness is the housing sector. High interest rates in general and mortgage rates in particular have packed a one-two punch, flattening residential construction. With mortgage interest rates above 15 per cent all this year, it is surprising that housing starts were able to bounce back in March and April (see chart), following February's plunge.



This expansion came to an abrupt end in May, however, when total new starts plummeted by 14 per cent to a seasonally adjusted annual rate of 1.15 million units, paced by a 16.3 per cent drop in single-family starts. Building permits issued—a harbinger of future housing activity—declined by 0.3 per cent. They would have declined even further had it not been for an unusually large increase in permits in Arizona, where builders stepped up their permit applications in May to avoid the imposition of larger fees in June. Nor was this the only dismal news in the housing sector. New home sales sagged by 13.5 per cent in April compared with the previous month.

With the rapid escalation in prices of new and existing homes over the past three years, and even more importantly, the high cost of financing them, an ever increasing portion of the population has been priced out of the housing market (Financial Digest—April 6, 1981). At today's mortgage interest rates—which averaged more than 16 per cent nationwide at the beginning of May according to the Federal Home Loan Bank Board—a purchaser of a median-priced existing home ($65,300) would have to pay approximately $665 per month, assuming a 25 per cent down payment and a 25-year maturity.

Taking into account the rule-of-thumb that monthly mortgage payments should not exceed one-fourth of a household's monthly gross income, over 80 per cent of first-time potential home buyers would not be able to afford such a home. What is more, when taxes are added to mortgage debt service, the proportion of those who cannot meet this requirement rises further. In contrast, the proportion of households unable to afford the median-priced home just three years ago was less than 50 per cent.

As long as builders cannot sell existing new homes and interest rates remain at prohibitively high levels, a sustained turnaround in housing starts is not likely to occur. Furthermore, the massive disintermediation that has been taking place at the nation's thrift institutions may make the mortgage market even less accommodating to prospective home buyers by pricing an even larger share of households out of the market or possibly by closing some mortgage lending windows entirely.

. . . And The Automobile Industry . . .

Similarly, automobile buyers continue to be deterred by a combination of sharply higher new car sticker prices as well as lofty finance charges. The automobile sales boom which took place during the late-February/mid-March period, ended abruptly, when the temporary price rebates were terminated late in March. Automobile sales plummeted by more than 25 per cent to a seasonally adjusted annual rate of 5.7 million units in April and have remained at this level through the first ten-day selling period in June.

The slide in car sales in April was the major contributor to the 2.1 per cent drop in sales by the

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nation's retailers—the biggest monthly drop since the 1973-75 recession. In May, retail sales inched up by only 0.2 per cent. But even with the value of automobiles and automotive products sold excluded for these two months, retail sales remained flat, falling 0.05 per cent in April and rising 0.03 per cent last month. In the durable goods category, sales of building materials rose only one-tenth of one per cent in May. Most nondurable goods stores posted declines with the exception of food stores, gasoline service stations, apparel and accessory stores and drug stores.

Despite the depressed levels of automobile sales in April and May, auto manufacturers have been increasing production, with the aim of replenishing inventories which fell to a low, 44-day supply in March. Auto assemblies soared not only for the recently introduced models—which have been in short supply since their debut—but also for other models. Although the industry usually builds up inventories at this time of year in anticipation of summer plant closings and retooling for the next model year, this time inventories seem to have been overbuilt—at least by historical standards. On June 1, 1981, the industry had 70 days' supply of new cars, sharply above levels prevailing during this time in the 1976-79 period, when they averaged about 55 days of supply (and sales were expanding at an annual rate of nearly nine million units).

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/10/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	127.618	– .549	– 2.844
Loans to Depository Inst.	2.207	+ .253	+ 1.806
Float	3.628	– .356	– .707
Total Reserve Bank Credit	142.870	– .726	+ 2.563
Treasury Deposits with Federal Reserve Banks	2.613	– .369	– .271
Currency Outside Banks	122.842	+ .467	+ 7.883
Member Bank Reserves:			
Required	39.262	– .593	– 3.547
Excess (Deficiency)	.230	– .037	+ .081
Total Reserves Held	39.492	– .630	– 3.466
Net Borrowed Reserves	1.700	+ .300	+ 1.463
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	97.410	+ .874	+18.365

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	360.5	– 4.4‡	– 1.7‡
M-1B	425.4	+ 5.0‡	+ 9.8‡
M-2 (May '81)	1,741.7	+ 10.9	+ 11.2
L (March '81)	2,428.2	+ 10.6	+ 10.1

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 6/19/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	14.75%	14.15%	13.10%
* Federal Agencies	14.70	14.10	15.05
* Project Notes—Taxfree (46% Taxable Equivalent)	12.96	13.52	13.15
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	17.75	16.75	

‡Finance Company Paper—Prime	
5- 14 days	17.50%
15- 29 days	17.50
30- 59 days	17.00
60- 89 days	15.75
90-179 days	14.00
180-239 days	13.75
240-270 days	13.00

‡* Bankers' Acceptances	
Jul.	18.00%
Aug.	17.20
Sep.	16.80
Oct.	16.20
Nov.	15.45
Dec.	15.15

‡Industrial Paper—Prime

30- 89 days	18.00%
90-120 days	16.75

†Federal Funds Effective Rate 20.50%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'81	$ 2,853	$ 2,731	$ 2,572
Gross National Product (1972 Dollars)*	1st Q'81	$ 1,516	$ 1,486	$ 1,502
Percent Change, Annual Rate	1st Q'81	8.6%	3.8%	3.1%
Change in Consumer Prices (all urban consumers)*	Apr '81	4.8%	7.2%	10.8%
Change in Producer Prices*	May '81	4.8%	9.6%	6.0%
Civilian Employment (Thousands of Persons)†	May '81	99,235	98,976	97,116
Unemployment as % of Civilian Labor Force†	May '81	7.6%	7.3%	7.6%
Personal Income*	May '81n	$ 2,367	$ 2,354	$ 2,114
Leading Indicators Composite Index (1967=100)†	Apr '81	138.3	137.8	126.2
Industrial Production Index (1967=100)†	May '81n	152.8	152.3	144.0
Net Change in Consumer Installment Credit†	Apr '81	$ 2.33	$ 3.11	–$ 1.67
U.S. Merchandise Trade Balance†	Apr '81	–$ 2.47	$ 0.49	–$ 1.20
Plant and Equipment Expenditures*	3rd Q'81	$322.88(a)	$317.29(a)	$296.23
Private Housing Starts (Thousands of Units)*	May '81n	1,152	1,340	938
New Construction Expenditures*	Apr '81	$ 244.6	$ 251.5	$ 225.8
Total Business Inventories†	Apr '81n	$ 474.9	$ 472.4	$ 448.9
Total Business Sales†	Apr '81n	$ 346.1	$ 346.6	$ 301.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

. . . Add Up To A Slowdown

The sharp 7.5 per cent rise in motor vehicle assemblies in May—to a seasonally adjusted 7.3 million unit annual rate—was responsible for just about all of the 0.3 per cent gain in the index of industrial production. It boosted output of consumer goods and materials substantially. However, mining output fell for the second month in a row due to the coal strike. Production of energy-related materials continued to decline, as the oil industry attempted to reduce the surplus of petroleum products on the market. Finally, in response to the weakening housing sector, output of large appliances for the home as well as construction supplies slipped again.

Although industrial production has shown a persistent resiliency since the beginning of the year, it could weaken soon. The flatness of "real" retail sales over the past two months will cause inventories to rise unless manufacturers curtail production. Although the time lag between slumping sales and a slowing of industrial production has always been fairly short, during the past 16 months it has narrowed even further—to less than two months. Producers have been monitoring their stocks much more closely since the upturn in financing costs made excessive accumulation of inventories particularly costly. ■

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (6/3/81)	120,634	+ 583	+26,952
New York City (6/3/81)	28,363	+ 343	+ 6,105
Commercial Paper (6/3/81)	142,922	— 162	+18,904

Bank Loans

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
	Commercial and Industrial Loans		
Weekly Reporting Large Commercial Banks			
Nationwide (6/3/81)	176,620	+ 1,172	+18,000
New York City (6/3/81)	52,149	+ 801	+ 4,921
	Total Loans Gross Adjusted		
Nationwide (6/3/81)	437,255	+ 3,250	+42,795
New York City (6/3/81)	105,771	+ 2,737	+15,970

Financial Markets

	Friday 6/19/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	15.17%	+ .39	+ 8.00
180-Day Bills†	15.14	+ .46	+ 7.78
Longest Bills†	14.62	+ .36	+ 6.55
Recent Issues:			
14⅝s 6/30/83 (When Issued)	14.43	NA	
13⅜s 3/31/85	14.05	+ .28	
14½s 5/15/91	13.38	+ .08	
13⅞s 5/15/11	12.78	+ .11	
Municipals:			
Bond Buyer—20 Bond Index* (6/18/81)	10.73%	+ .10	+ 1.18
Blue List Total ($ Million)	$1,099	+ $ 19	— $ 21
30-Day Visible Supply ($ Million)	$2,254	+ $249	— $ 25
Total	$3,353	+ $268	— $ 46
Corporates:			
Moody's Aa Composite (6/18/81)	14.21%	— .18	+ 3.11
Money Mgr.—30-Day Supply ($ Million)	$7,553	+$1,694	+ $5,211
Stocks:			
Dow-Jones Averages:			
Industrials	996.19	— 10.09	+ 126.48
Transportation	420.23	— 6.11	+ 151.21
Utilities	110.26	+ .18	— 3.94
65 Stocks	384.94	— 3.79	+ 71.42
Standard and Poor's 500 Stocks	131.97	— 1.61	+ 17.91
N.Y.S.E. Composite Index	76.75	— .85	+ 11.55
N.Y.S.E. Avg. Daily Vol. for Week (000's)	54,446	+ 2,408	+ 15,412

* 46% Taxable equivalent 19.87%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/19/81	Week Ago
Overnight	19.50%	18.63%
1 month	19.00	18.38
3 month	18.63	17.75
6 month	17.63	16.88
1 year	16.50	16.13
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.50%	14.75%
Long Term (7 to 15 yrs.)	14.70	14.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/19/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02558	39.09
Canada	.8288	1.2065
Denmark	.1333	7.5025
France	.1751	5.7120
Germany	.4188	2.3875
Italy	.0008403	1190.00
Japan	.004467	223.85
Mexico	.04103	24.37
Netherlands	.3765	2.6560
Switzerland	.4808	2.0797
U.K.	1.9660	.5086